

**REPORT OF THE AUDIT OF THE
MORGAN COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

May 14, 2005



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
MORGAN COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

May 14, 2005

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for Morgan County Sheriff as of May 14, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,390,308 for the districts for 2004 taxes, retaining commissions of \$98,940 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,291,212 to the districts for 2004 Taxes. Taxes of \$376 are due to the districts from the Sheriff and refunds of \$970 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Distribute Interest Earnings As Required By Law
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were not adequately insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John Farris, Secretary
Finance and Administration Cabinet
Honorable Tim Conley, Morgan County Judge/Executive
Honorable Mickey Whitt, Morgan County Sheriff
Members of the Morgan County Fiscal Court

Independent Auditor's Report

We have audited the Morgan County Sheriff's Settlement - 2004 Taxes as of May 14, 2005. This tax settlement is the responsibility of the Morgan County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Morgan County Sheriff's taxes charged, credited, and paid as of May 14, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated April 7, 2006, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
John Farris, Secretary
Finance and Administration Cabinet
Honorable Tim Conley, Morgan County Judge/Executive
Honorable Mickey Whitt, Morgan County Sheriff
Members of the Morgan County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Distribute Interest Earnings As Required By Law
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 7, 2006

MORGAN COUNTY
MICKEY WHITT, SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

May 14, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 117,017	\$ 557,851	\$ 921,242	\$ 278,713
Tangible Personal Property	12,970	77,230	102,109	89,907
Intangible Personal Property				29,143
Fire Protection	3,501			
Increases Through Exonerations	3	16	22	23
Franchise	20,155	116,124	158,421	
Additional Billings	86	406	671	203
Oil and Gas Property Taxes	665	3,168	5,234	1,583
Limestone, Sand, and Mineral Reserves	113	539	890	269
Bank Franchises	29,054			
Penalties	1,730	8,412	13,304	5,953
Adjusted to Sheriff's Receipt	7	14	6	6
Gross Chargeable to Sheriff	<u>\$ 185,301</u>	<u>\$ 763,760</u>	<u>\$ 1,201,899</u>	<u>\$ 405,800</u>
<u>Credits</u>				
Exonerations	\$ 1,118	\$ 5,328	\$ 8,799	\$ 2,662
Discounts	2,287	8,051	13,053	4,898
Delinquents:				
Real Estate	7,615	35,489	58,607	17,731
Tangible Personal Property	28	169	223	163
Uncollected Franchise	16	93	122	
Total Credits	<u>\$ 11,064</u>	<u>\$ 49,130</u>	<u>\$ 80,804</u>	<u>\$ 25,454</u>
Taxes Collected	\$ 174,237	\$ 714,630	\$ 1,121,095	\$ 380,346
Less: Commissions *	<u>7,693</u>	<u>29,951</u>	<u>44,844</u>	<u>16,452</u>
Taxes Due	\$ 166,544	\$ 684,679	\$ 1,076,251	\$ 363,894
Taxes Paid	166,822	684,242	1,076,194	363,954
Refunds (Current and Prior Year)	<u>49</u>	<u>221</u>	<u>369</u>	<u>111</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (327)</u>	<u>\$ 216</u>	<u>\$ (312)</u>	<u>\$ (171)</u>

The accompanying notes are an integral part of this financial statement.

MORGAN COUNTY
 MICKEY WHITT, SHERIFF
 SHERIFF'S SETTLEMENT - 2004 TAXES
 May 14, 2005
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,090,860
4% on	\$	1,289,448

** Special Taxing Districts:

Library District	\$	(32)
Health District		(55)
Extension District		(51)
Soil Conservation District		(22)
Ambulance Distict		376
		<hr/>

Due District or (Refunds Due Sheriff)	\$	<u>216</u>
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MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT

May 14, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, on December 17, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$42,177 of public funds uninsured and unsecured.

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official on December 17, 2004.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	1,205,437
Uncollateralized and uninsured	<u>42,177</u>
Total	<u>\$ 1,347,614</u>

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 20, 2004 through May 14, 2005.

Note 4. Interest Income

The Morgan County Sheriff earned \$1,556 as interest income on 2004 taxes. As of May 14, 2005, the Sheriff owed \$701 in interest to the school district and \$855 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Morgan County Sheriff collected \$18,222 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Morgan County Sheriff collected \$210 of advertising costs and \$210 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of May 14, 2005 the Sheriff owed \$210 in advertising costs to the county and \$210 in advertising fees to his fee account.

COMMENTS AND RECOMMENDATIONS

MORGAN COUNTY
MICKEY WHITT, SHERIFF
COMMENTS AND RECOMMENDATIONS

As of May 14, 2005

STATE LAWS AND REGULATIONS:

The Sheriff Should Distribute Interest Earnings As Required By Law

The Sheriff failed to distribute any interest earned for 2004 taxes. The Sheriff should distribute the interest earned on tax collections as required. KRS 134.140(3)(b) requires the Sheriff at the time of his monthly distribution of taxes to the district board of education, to pay the board of education that part of his investment earnings for the month which is attributable to the investment of school taxes. The Sheriff is allowed to charge up to 4% of the earned monthly investment income for administrative expenses. We recommend the Sheriff distribute the interest earned on tax collections according the requirements of the above statute.

Sheriff's Response:

I will comply with the KRS in the future.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. In our judgment, this condition could have adversely affected the Sheriff's ability to record, process, summarize, and report accurate financial information. We recommend the Sheriff's Office implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash recounted and deposited by the Sheriff
- Reconciliation of reports to source documents and receipts and disbursements ledgers by the Sheriff
- All disbursement checks are to be signed by two people with one being the Sheriff
- The Sheriff examine payroll checks prepared by an employee and distribute checks to employees
- All disbursements checks prepared by an employee be examined by the Sheriff for proper documentation
- The Sheriff mail disbursements
- The Sheriff or someone independent of the handling of receipts and disbursements, or recording of transactions prepare bank reconciliation.

Sheriff's Response:

No Response

MICKY WHITT, SHERIFF
COMMENTS AND RECOMMENDATIONS
As of May 14, 2005
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

- The Sheriff Should Eliminate The Deficit Of \$2,889 In The Tax Account
- The Sheriff Should Pay Investment Earnings To The Board Of Education Monthly
- The Sheriff's Office Lacks Adequate Segregation Of Duties

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tim Conley, Morgan County Judge/Executive
Honorable Mickey Whitt, Morgan County Sheriff
Members of the Morgan County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial Statement
Performed In Accordance With Government Auditing Standards**

We have audited the Morgan County Sheriff's Settlement - 2004 Taxes as of May 14, 2005, and have issued our report thereon dated April 7, 2006. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Morgan County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Morgan County Sheriff's Settlement - 2004 Taxes as of May 14, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Distribute Interest Earnings As Required By Law

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 7, 2006

